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Joan Marsh  
Director, Federal Government Affairs

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Washington DC 20036  
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August 8, 2001

VIA HAND DELIVERY

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
Room Number TWB-204  
445 12<sup>th</sup> Street, S.W.  
Washington, DC, 20554

Re: GTE Corp. and Bell Atlantic Corp., CC Docket No. 98-184

Dear Ms. Salas:

On behalf of AT&T Corp., the attached letter addressed to Dorothy Attwood and David Solomon was hand-delivered to all addressees today.

Respectfully submitted,

A handwritten signature in dark ink, appearing to be "JM" or "Joan Marsh", written over a horizontal line.

Joan Marsh

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1120 20<sup>th</sup> Street NW  
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Washington DC 20036  
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August 8, 2001

VIA HAND DELIVERY

Dorothy Attwood  
Chief, Common Carrier Bureau  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC, 20554

David Solomon  
Chief, Enforcement Bureau  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC, 20554

Re: GTE Corp. and Bell Atlantic Corp., CC Docket No. 98-184

Dear Ms. Attwood and Mr. Solomon:

Today, Genuity, Inc. announced its second quarter financial results. Consistent with forecasts and prior management guidance, the second quarter results again demonstrate Genuity's precarious financial position. Genuity is sustaining regular (and increasing) operating losses while it pursues an expanding capital spending program. In short, Genuity is hemorrhaging money and, in direct violation of the conditions Verizon accepted in the BA/GTE merger proceeding, Verizon is playing the role of Genuity's financial savior -- the type of savior not available to either Genuity's competitors or CLECs facing the same financial woes as those facing Genuity.

The BA/GTE Merger Order<sup>1</sup> properly and unambiguously places strict restrictions on Verizon's ability to fund Genuity's ongoing operations. The Order states: "Genuity retains the

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<sup>1</sup> Memorandum Op. and Order, *Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Section 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184 (June 16, 2000) ("BA/GTE Merger Order").

right to seek additional funding through arm's-length loans from the merged firm [Verizon], but is not obligated to do so. If it does obtain loans from Bell Atlantic/GTE, these cannot amount to more than 25 percent of the total outstanding debt of Genuity." BA/GTE Merger Order, para. 86 (emphasis added).

The reason for the limitation is clear. Although the Commission ultimately approved the merger, they found the question of whether Verizon could or would, through contractual and financial relationships, "control" Genuity to be a very close one. Indeed, the question was so close that the Commission admonished the parties that "[s]hould the actual relationship between Bell Atlantic/GTE and Genuity deviate from or extend beyond th[e] representations [made to the Commission at the time of the merger], the Commission would be compelled to reevaluate its assessment of whether the merged firm controls Genuity." The Commission approved the merger only on the condition that Genuity be spun off to operate as a wholly independent entity and it fully expected the parties to act accordingly. Indeed, the Commission made clear that it would "take appropriate enforcement action which may include issuing a standstill order" in the event changed circumstances gave Verizon control over Genuity. BA/GTE Merger Order, para. 76. It is clear that has occurred.

Circumstances have changed dramatically since the date the merger was approved. First, Genuity completed its Initial Public Offering, generating approximately \$1.8 billion in IPO proceeds.<sup>2</sup> Although the Commission believed that this revenue would be Genuity's primary source of financing (BA/GTE Merger Order, para. 86), that money was quickly spent. Net cash consumed by Genuity's operations for 2000 was \$616.9 million and an additional \$505 million for the first six months of 2001 alone.<sup>3</sup> Net cash used in investing activities (including items such as capital spending, leaseholds, computers and fixtures) for 2000 was \$1.4 billion and slightly over \$1 billion for the first and second quarters of 2001. The IPO proceeds are long gone.

Moreover, Genuity's operations have not and are not producing profits -- and are not expected to for many quarters. Consider Genuity's reported performance results:

First Quarter 2001:

EBITDA *loss* of \$198 M  
EPS *loss* of \$0.30/share

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<sup>2</sup> Genuity's Form 10-Q for the Quarterly Period ended March 31, 2001 ("Genuity's 03/01 10-Q"), Additional Paid-In Capital, p. 15, <http://www.sec.gov/Archives/edgar/data/1110794/000092701601501014/d10q.txt>.

<sup>3</sup> See, Genuity Consolidated Statements of Cash Flows in Genuity's August 8, 2001 Press Release on 2Q financial performance, attached.

Second Quarter 2001:

EBITDA *loss* of \$243 M  
EPS *loss* of \$0.36/share

2001 Management Guidance:

EBITDA *loss* of \$675 million to \$700 M  
EPS *loss* of \$1.30 to \$1.35/share

Merrill Lynch has forecasted that Genuity will not turn EBITDA *positive* until the first half of 2003.<sup>4</sup>

But against these significant operating losses, Genuity has continued with its aggressive capital investment and infrastructure development plans. Genuity's capital spending for 2001, as estimated by management, will total \$1.4 billion while capital spending for 2001-04 will run as high as \$4-5 B. Genuity's capital expenditures during the second quarter alone were \$410 million -- or \$72 million *higher* than the second quarter of 2000. In effect, Genuity is sustaining ever higher operating losses while spending even more money building out its network.

Where is Genuity getting the money? In flagrant violation of the BA/GTE Merger Order, Verizon is supplying the shortfall. First, in September 2000, Genuity announced a \$2 billion unsecured revolving line of credit from a consortium of major banks, including a major shareholder. Interest on any credit advances taken under the line would be due in quarterly installments and a minimum debt ratio was required. As of March 31, 2001, there were no outstanding credit advances under that facility. See, Genuity's 03/01 10-Q, Short-Term and Long-Term Obligations, pp. 11-12. Moreover, given Verizon's ever-increasing money supply, it appears that to date no money has been drawn from this source.

In the mean time, Genuity attempted to raise capital through a \$2 billion bond offering. But in January 2001, the offering was cancelled due to poor market conditions, including a slowdown in growth in Genuity's lines of business.<sup>5</sup> Notably, Genuity's planned bond offering was to be rated Baa2 by Moody's Investment Service and triple-B-plus by Standard and Poor's -- the bottom tier of investment grade debt. Genuity announced that it would instead seek funding from Verizon.

In March 2001, Genuity received a \$500 million line of credit from Verizon. Unlike the commercial line of credit that Genuity has not drawn down, interest on the Verizon line of credit

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<sup>4</sup> See, Merrill Lynch Investment Note on Genuity, Inc., Thomas W. Watts, Merrill Lynch (May 4, 2001).

<sup>5</sup> See, Debt Crisis: Genuity Cancels \$2 Billion Bond Offering, by Ed Zwirn, [www.cfo.com](http://www.cfo.com), January 16, 2001 (attached).

was not payable until maturity.<sup>6</sup> Moreover, no minimum debt ratio was noted in any the Genuity's public filings. See 03/01 10-Q, pp. 11-12. As of March 31, 2001, borrowing under the Verizon credit line was \$200 million.

In May, Verizon enlarged the credit facility to \$900 million and extended its maturity to December 2001 (also extending the time for any interest payment from Genuity). At the same time, Verizon committed up to an additional \$2 billion in credit enhancements "to enable Genuity to access long-term sources of capital with maturities of up to five years." See, 03/01 10-Q, Subsequent Events, p. 19.

Today, Genuity announced that Verizon has agreed to amend its short-term loan with Genuity to increase it from \$900 million to a staggering \$1.15 billion – an amount that is over half of Genuity's total market capitalization. Although details of the amended loan terms are not available, it is probable that, like the other Verizon loans, interest on this loan is not payable to maturity. And there is no doubt that Genuity is drawing down on Verizon's funds. Genuity's short-term liabilities increased from \$35 million on December 31, 2000 to over \$828 million by June 30, 2001.

In short, Verizon, in violation of the Commission's Order, has become Genuity's sole financial patron and now holds close to 100% of Genuity's rapidly growing debt portfolio. And Genuity's ready access to a RBOC's deep pockets gives it a cheap and reliable funding source not available to Genuity's competitors or to the CLEC community. More troubling, Verizon's money is being used to build an interLATA data network that Verizon will in effect own when it one day exercises – *at no additional cost* – its currently held options.

Genuity has publicly conceded that Verizon's financial backing is critical to Genuity's future. In a Genuity Press Release on its 1Q 2001 Financial Results dated 05/03/01, Genuity touted the "exceptionally strong financial base" that it enjoyed that would allow it "to continue to grow the business and capitalize on market opportunities." Genuity noted that "[t]hese are opportunities that competitors with weaker financial positions may not be able to pursue." There is no doubt that Genuity's competitors who are not "backed" by a BOC have been required to curb if not eliminate entirely their capital spending and infrastructure build-out.

Finally, in a presentation to the CIBC World Markets Investor Conference on June 11, 2001, Genuity's Chief Marketing and Strategy Officer offered Verizon's financial backing as the top substantive reason why investors should buy Genuity shares. Indeed, being "backed" by Verizon was presented as more attractive and compelling than Genuity's Black Rocket technology, its competitive position, its customer base or its network and infrastructure. In an effort to further raise investor confidence, Genuity went on to tout the "powerful and complementary strategic relationship" between itself and Verizon. See Genuity CIBC Presentation, attached in part.

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<sup>6</sup> This, coupled with Genuity's bottom tier debt rating, raises questions about whether the loan from Verizon was negotiated at "arm's length" as required by the BA/GTE Merger Order.

The Commission properly limited Verizon's ability to financially back Genuity beyond a level that is consistent with Section 271's strict limitations on a BOC's ability to "own" or "control" an entity providing interLATA services until Section 271 relief has been granted. Verizon has flagrantly exceeded those clear and reasonable limitations. When the enormous flood of money that Verizon is making available to Genuity is combined with Verizon's current 9.7% ownership stake and its enormously valuable convertible option, the "control" scale unquestionably tips well into prohibited territory.

Verizon's violation of the Commission's Order is even more offensive because Verizon's deep pockets are improperly being used by Genuity to build an interLATA network that Verizon will one day take back within its direct control. As one report properly concludes, Verizon's relationship with Genuity is critical to Verizon's "plan to reinvent itself as a global carrier going toe to toe with the likes of Cable & Wireless and WorldCom."<sup>7</sup> Indeed, that same report indicates that Verizon is currently "working closely with Genuity on developing a voice-over-IP product by the year's end."

The Commission directed Verizon to comply with clear limitations in financing Genuity and warned Verizon that changed circumstances would force a new evaluation of the relationship between the parties and the level of control. Verizon has simply disregarded the merger order conditions and, in response to Genuity's weak financial performance, impermissibly taken on the role of Genuity's sole supplier of debt capital. In these changed circumstances, there can be no serious doubt that Genuity is entirely beholden to Verizon and that Verizon has obtained unlawful control over Genuity. The Commission should re-evaluate the entire scope of the relationship between Verizon and Genuity – including all contractual and financial ties – and issue an order immediately enforcing the strict limitations imposed on Verizon's ability to financially support Genuity's ongoing interLATA operations. More specifically, Verizon's astounding and seemingly unlimited financial support of Genuity merits the immediate stand-still order that the Commission warned the parties it might be required to enter. Anything less would allow Verizon to make a mockery of the Commission's Section 271 authority and responsibilities.

Respectfully submitted,



Joan Marsh

cc: Carol Matthey  
Anthony Dale  
Mark Stone  
Suzanne Tetreault  
Elizabeth Valinoti

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<sup>7</sup> Verizon Takes Convergence to the Enterprise, by Max Smetannikov, Interactive Week, August 6, 2001 (attached).



www.cfo.com

By Ed Zwirn CFO.com Jan 16, 2001

## DEBT CRISIS: Genuity Cancels \$2 Billion Bond Offering

### How it will affect other potential issuers.

Citing both the slowdown in the economy and in its own orders, Genuity cancelled a \$2 billion bond offer, and said it would be relying on alternative funding sources, including money from Verizon, the telephone giant from which it was carved out last year.

Genuity said it needed time to "complete its assessment of the current slowdown in economic activity and IT spending," according to a company press release. In addition, the explanation for the cancellation also referred to a Jan. 8 statement issued by the firm in which it reported that carrier and Internet Service Provider (ISP) orders declined 44 percent in the fourth quarter of 2000 versus the prior quarter.

The private (144a) deal, which was expected to hit the market as early as Tuesday, would have seen the firm borrow the money in five- and 10- year tranches via underwriters J.P. Morgan Chase and Salomon Smith Barney.

The firm's debt is rated Baa2 by Moody's Investors Service and triple-B-plus by Standard & Poor's, putting it in the bottom tier of investment grade.

In addition, high-profile advertising for Genuity's "Black Rocket" Internet platform product placed the firm squarely in the ranks of "new economy" firms, at least in terms of perception, making the would-be offering a barometer in many circles of the funding ability of the tech sector.

On the other hand, Genuity is hardly a go-it- alone startup firm of the kind usually associated with the new economy.

Spun off in June 2000 when regulators balked at the monopolistic impact of Bell Atlantic's merger with GTE to form Verizon, the firm still retains equity links with the parent.

Verizon owns class B shares giving it a 9.5 percent stake in Genuity, according to Dan McCauley, Verizon's manager of investor relations.

But provisions of the original spinoff specify that Verizon can reassume control of Genuity provided it abstains from providing long- distance service in certain areas already handled by Genuity. This would put the combination into compliance with Section 271 of the Federal Telecommunications Act, he said.

If that were to happen, Verizon could "change its equity position to class A shares, giving it a maximum 80 percent ownership stake and about 95 percent of voting power," he added.

McCauley said he was unaware of any specific funding arrangements between Verizon and Genuity.

"I haven't seen anything about it on our side," he said, adding that a reassumption of Verizon control of Genuity would make things "simple."

"They could just tap into our funds," he said.

Genuity officials were unavailable for comment.

During its relatively short life, Genuity has seen its shares go from a high of \$11.25 seen shortly after its IPO in June and a Dec. 26 low of \$3.75. They closed Tuesday at \$5.13.

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**Wednesday August 8, 7:33 am Eastern Time**

## Press Release

*SOURCE: Genuity Inc.*

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# Genuity Delivers 13 Percent Annual Revenue Growth

## Earnings in Line with Previous Guidance

WOBURN, Mass.--(BUSINESS WIRE)--Aug. 8, 2001--Genuity Inc. (NASDAQ: [GENU](#) - [news](#)) today announced second quarter 2001 results with revenues of \$303 million in the quarter, an increase of 13 percent over the second quarter of 2000. This reflects increases in all domestic segments, including 20 percent growth in Managed Web Hosting and Value-Added Services.

Second quarter 2001 Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) from operations, which improved slightly from the prior quarter, was a loss of \$195 million. Including a special charge of approximately \$48 million related to the previously announced separation of employees and consolidation of facilities, the consolidated EBITDA loss for the quarter was \$243 million. Genuity's second quarter 2001 pro forma loss per share from operations, assuming full conversion of Class B common stock, was \$0.31, favorable to Genuity's previously provided guidance. Including the special charge, the reported pro forma loss per share was \$0.36.

"Our two-pronged strategy, which we announced earlier this year, focuses on increasing revenue and improving margins through growth in our Managed Web Hosting and Value-Added Services lines of business, and reducing costs to improve the profitability of our other service offerings," said Genuity Chairman and Chief Executive Officer Paul R. Gudonis. "We continue to believe that our strategic direction is sound and will create long-term value for our shareholders, but the significant slowdown in IT spending continues

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to affect the pace of growth in our business and the full realization of the financial benefits of this strategy. In light of the economic environment, last quarter we announced a workforce reduction and also have begun to realize the improvement in our circuit cost initiatives, enabling us to meet our earnings objectives for the quarter and going forward."

#### Continued Year-Over-Year Revenue Growth in All Domestic Segments

Consolidated revenue for the second quarter grew 13 percent over the prior year's quarter, or 36 percent, excluding revenues from services provided to AOL.

Genuity's total access revenues grew 13 percent as compared to last year's second quarter, and 50 percent, or \$42 million, excluding revenues from AOL. Broadband revenues contributed to the majority of the access growth in the quarter, driven by an approximate 500 percent increase in both revenue and subscribers from the prior year quarter. Access revenue growth also benefited from a 28 percent increase in dedicated connectivity services.

Domestic revenues from AOL decreased 14 percent year-over-year due to contractual price reductions entered into in late 1999, which became effective September 1, 2000. Domestic revenues from AOL increased 7 percent from the prior quarter, the result of Genuity providing a higher volume of dial and DSL services to the company. Total AOL revenues now represent 34 percent of total Genuity revenue, compared to 45 percent in last year's second quarter.

Managed Web Hosting and Value-Added Services revenues grew 20 percent over the same quarter last year, including sales of Genuity's Black Rocket(TM) eBusiness Network Platform and upselling additional hosting services to existing customers. The second quarter results also reflect a higher level of non-service-related customer credits. Normalizing for these adjustments, Managed Web Hosting and Value-Added Services recurring revenue increased 30 percent.


International services revenues for the second quarter were \$14 million, a decline of approximately 16 percent, or \$3 million, year-over-year. Normalizing for an unusual item recorded in the second quarter of 2000 and for the weaker Yen, International revenues decreased 1 percent during this period with higher access connections being offset by lower pricing in the connectivity business. Transport revenues grew 22 percent, or nearly \$5 million, as compared with the same quarter last year.

#### Operational Highlights

Second quarter operational highlights include:

- Announced Genuity's intention to acquire Integra, a premier pan-European provider of managed hosting and eBusiness solutions, and opened a state-of-the-art European data center in Amsterdam. These moves signal the beginning of Genuity's deployment of managed hosting and

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Black Rocket services in major European markets.

- Reduced headcount in light of softer economic conditions resulting in a reduction of 16 percent of full-time equivalent employees, somewhat larger than the 14 percent previously announced.
- Added new customers and sold additional services to existing customers including; Pratt & Whitney (Hosting); EarthLink (DSL); Equiva (Hosting); OOiPtech (International Hosting); Compaq Computer (Dedicated Access); Globecom Interactive (Hosting); Ernst & Young (Dial); U.S. Department of Treasury (Dedicated Access); Microsoft (Dedicated Access).
- Signed new contracts totaling approximately \$104 million in gross First-year Contract Value (FCV), up from \$86 million last quarter.
- Sold new managed Web hosting contracts with an increased average deal size of \$735,000. Excluding an exceptionally large contract, the average size of new managed Web hosting contracts was \$341,000 in the second quarter of 2001, compared with \$234,000 during the second quarter of 2000. This represents a 46 percent increase over the prior year quarter.
- Increased dedicated access connections by 9 percent from the previous year, to 4,150 in the second quarter, with average annual revenue per connection increasing 11 percent to approximately \$48,100. Increased network service delivery points in the quarter to 295, a 36 percent increase from the second quarter last year.
- Grew DSL subscribers to 452,100, a 39 percent sequential increase from the first quarter of 2001.
- Continued modem migration from leased circuits to Genuity's network. Forty percent of installed dial-up modems now reside on our network compared to 18 percent a year ago.
- Received recognition from multiple industry and financial sources including:
- Named to the Russell 2000 Index; - Won Web Hosting Magazine's "Best Hosts" Award in the

managed hosting category;

- Won Network Magazine's "Product of the Year" for managed security services; and
- Named #46 on the VAR Business 500 list of the largest solutions providers.

### Financial Highlights

- Cost of Sales increased 12 percent over the second quarter of last year and remained flat compared to the prior quarter. The increase over the second quarter of last year is due primarily to an increase in unit volume versus the prior year and the geographic expansion of Genuity's network to provide access to a broader base of customers.
- Circuit costs as a percentage of revenues improved 150 basis points over the first quarter of 2001.
- Selling, General & Administrative (SG&A) expenses increased 23 percent over the prior year due principally to increased marketing and branding efforts, and sales expenses. SG&A remained flat compared to the prior quarter, including a higher provision for bad debt recorded in the quarter. Net of provisions for bad debts in both quarters, SG&A expenses declined \$7 million, or 5 percent, sequentially.
- EBITDA (excluding special charge) in the quarter was a loss of \$195 million. Depreciation and Amortization of \$103 million in the quarter was an increase of \$41 million versus last year's quarter, and an increase of \$10 million sequentially.
- Capital expenditures during the second quarter were \$410 million, which was \$72 million, or 21 percent, higher than the second quarter of 2000. Year-to-date, Genuity's capital expenditures were approximately \$561 million out of the projected \$1.4 billion to be spent in 2001.
- Verizon has agreed to amend its short-term loan with Genuity to increase from \$900 million to \$1.15 billion the principal amount that may be borrowed in 2001.

### Financial Guidance

Genuity is reaffirming its financial guidance with the exception of its annual revenue targets. In light of continued soft economic conditions, most notably for IT purchasing, the Company is revising its revenue guidance for 2001 to \$1.2-\$1.25 billion. Previous guidance was \$1.3-\$1.35 billion. Guidance for third quarter revenue growth is for flat to low single digits percent sequential growth.

Despite the softer economic conditions impacting Genuity's revenues, the Company's aggressive cost reduction initiatives allow it to maintain the other elements of its financial guidance for 2001:

- Pro forma EPS loss of \$1.30-\$1.35;
- EBITDA loss of \$675-\$700 million;
- Capital expenditures of \$1.4 billion.

Additionally, the Company continues to target the first full quarter of Gross Margin positive results in the fourth quarter 2001. The EBITDA breakeven point is expected to be reached in the latter part of 2002, with the first full year of positive EBITDA in 2003. These profitability targets are unchanged from prior guidance. Capital expenditures for 2001 to 2004 are targeted to be in the \$4-\$5 billion range, also unchanged from prior guidance.

This financial guidance excludes the special charge of \$48 million announced today, and excludes any impact from our proposed acquisition of Integra.

#### About Genuity

Genuity is a leading Internet infrastructure services provider and the first company in the industry to offer an eBusiness Network Platform. Genuity combines its Tier 1 network with its full portfolio of managed Internet services, including dedicated, remote and broadband access, Web hosting and Internet security to develop a platform for creating scalable and repeatable managed eBusiness solutions. With annual revenues of more than \$1 billion, Genuity (NASDAQ: GENU - news) is a global company with offices and partnerships throughout the U.S., Europe, Asia and Latin America. Additional information about Genuity can be found at [www.genuity.com](http://www.genuity.com).

A copy of this release and associated tables can be found on the Internet at [www.genuity.com](http://www.genuity.com).

Genuity will discuss its second quarter results at 9:00 am (EDT) on August 8, 2001. Individual investors may listen in on the call by dialing 212-676-5213 or via the Web by going to [www.genuity.com/investor](http://www.genuity.com/investor).

#### Forward-Looking Statements

This announcement contains forward-looking statements. For each of these statements, Genuity Inc. claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. If future events and actual performance differ materially from Genuity's assumptions, actual results could vary significantly from the performance projected in these forward-looking statements.

These forward-looking statements are based on the company's current knowledge, beliefs, expectations and specific assumptions with respect to future business decisions. Accordingly, the statements are subject to significant risks, contingencies and uncertainties that could cause actual operating results, performance or business prospects to differ materially from those expressed in, or implied by, these statements. These risks, contingencies and uncertainties include, but are not limited to: expectations as to the company's future revenues, margins, expenses and capital requirements; the company's ability to

develop and maintain a successful relationship with significant customers; successfully maintaining and continuing to strengthen our brand recognition; and expansions relating to our capacity and network infrastructure.

For a more detailed discussion of the risks and uncertainties of Genuity's business, please refer to the company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 30, 2001, which discusses in greater detail the important factors that could cause actual results to differ materially.

The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Further disclosures that the company makes on related subjects in its additional filings with the Securities and Exchange Commission should be consulted.

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GENUITY INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

Unaudited

	2001	SECOND QUARTER 2000	% Change
REVENUES			
Access	\$ 224,696	\$ 198,101	13.4%
Hosting and Value-added services	37,447	31,285	19.7%
Transport	26,599	21,862	21.7%
International	14,052	16,676	-15.7%
TOTAL REVENUES	302,794	267,924	13.0%
OPERATING EXPENSES			
Cost of sales	345,498	308,222	12.1%
Selling, general and administrative	152,794	124,645	22.6%
Depreciation and amortization	103,185	61,808	66.9%
Special Charge (2)	47,909	--	n/m
TOTAL OPERATING EXPENSES	649,386	494,675	31.3%
OPERATING LOSS	(346,592)	(226,751)	52.9%
OTHER INCOME (EXPENSE)			
Interest income (expense), net	(6,155)	2,027	n/m
Other - net	278	737	-62.3%
LOSS BEFORE INCOME TAXES	(352,469)	(223,987)	57.4%
Income taxes	1,104	720	53.3%
NET LOSS	\$ (353,573)	\$ (224,707)	57.3%
PRO FORMA PER SHARE DATA (1):			
Loss Per Share	\$ (0.36)	\$ (0.23)	56.5%
Special Charge Per Share	(0.05)	--	n/m
Loss Per Share Excluding Special Charge	\$ (0.31)	\$ (0.23)	34.8%

Common Shares Outstanding At the End of the Period	973,913	973,913	
REPORTED PER SHARE DATA:			
Basic and Diluted Loss Per Share	\$ (1.84)	\$ (11.14)	n/m
Special Charge Per Share	(0.25)	--	n/m
Loss Per Share Excluding Special Charge	\$ (1.59)	\$ (11.14)	n/m
Basic and Diluted Weighted-Average Common Shares Outstanding	192,169	20,167	
SIX MONTHS ENDED JUNE 30,			
	2001	2000	% Change
REVENUES			
Access	\$ 442,800	\$ 387,620	14.2%
Hosting and Value-added services	76,130	56,507	34.7%
Transport	52,261	45,487	14.9%
International	31,070	26,162	18.8%
TOTAL REVENUES	602,261	515,776	16.8%
OPERATING EXPENSES			
Cost of sales	690,751	592,150	16.7%
Selling, general and administrative	305,840	232,981	31.3%
Depreciation and amortization	196,710	115,594	70.2%
Special Charge (2)	47,909	-	n/m
TOTAL OPERATING EXPENSES	1,241,210	940,725	31.9%
OPERATING LOSS	(638,949)	(424,949)	50.4%
OTHER INCOME (EXPENSE)			
Interest income (expense), net	(4,940)	(946)	n/m
Other - net	96	(7,330)	n/m
LOSS BEFORE INCOME TAXES	(643,793)	(433,225)	48.6%
Income taxes	2,130	1,308	62.8%
NET LOSS	\$ (645,923)	\$ (434,533)	48.6%
PRO FORMA PER SHARE DATA (1):			
Loss Per Share	\$ (0.66)	\$ (0.45)	46.7%
Special Charge Per Share	(0.05)	-	n/m
Loss Per Share Excluding Special Charge	\$ (0.61)	\$ (0.45)	35.6%
Common Shares Outstanding At the End of the Period	973,913	973,913	
REPORTED PER SHARE DATA:			
Basic and Diluted Loss Per Share	\$ (3.36)	\$ (22.62)	n/m
Special Charge Per Share	(0.25)	-	n/m
Loss Per Share Excluding			

Special Charge	\$ (3.11)	\$ (22.62)	n/m
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Basic and Diluted Weighted-Average Common Shares Outstanding	192,169	19,212
-----------------------------------------------------------------	---------	--------

(1) Pro Forma per Share Data is based on the assumed conversion of the Class B common stock into 800 million shares of Class C common stock at the end of each period presented. The ability of Verizon to convert its Class B common stock is limited by an FCC order which addresses, among other things, its ownership in Genuity. See Genuity Inc.'s Form 10-K for a detailed discussion of the conditions surrounding this conversion.

(2) The Special Charge includes costs associated with the Company's workforce reduction initiative and lease cancellation and other costs associated with facilities which will be exited.

n/m = not meaningful

# GENUITY INC.

## SELECTED FINANCIAL DATA

(in thousands)

Unaudited

	SECOND QUARTER		
	2001	2000	% Change
Financial data			
EBITDA			
Operating loss	\$ (346,592)	\$ (226,751)	52.9%
Depreciation and amortization	103,185	61,808	66.9%
EBITDA - Reported	(243,407)	(164,943)	47.6%
Special Charge	47,909	-	n/m
EBITDA - Excluding Special Charge	\$ (195,498)	\$ (164,943)	18.5%
EBITDA Margin - Reported	(80%)	(62%)	
EBITDA Margin - Excluding Special Charge	(65%)	(62%)	
Capital Expenditures 1			
Access	\$ 85,164	\$ 81,682	4.3%
Hosting and Value-added services	25,287	33,947	-25.5%
GNI/Transport	233,717	195,206	19.7%
International	13,956	6,936	101.2%
Other	51,435	19,908	158.4%
Total capital expenditures	\$ 409,559	\$ 337,679	21.3%
Depreciation and Amortization			
Access	\$ 20,084	\$ 12,754	57.5%
Hosting and Value-added services	9,386	5,827	61.1%
GNI/Transport	53,758	28,005	92.0%
International	2,387	317	653.0%
Other	17,570	14,905	17.9%

Total depreciation and amortization \$ 103,185      \$ 61,808      66.9%

	SIX MONTHS ENDED JUNE 30,		
	2001	2000	% Change
EBITDA			
Operating loss	\$ (638,949)	\$ (424,949)	50.4%
Depreciation and amortization	196,710	115,594	70.2%
EBITDA - Reported	(442,239)	(309,355)	43.0%
Special Charge	47,909	-	n/m
EBITDA - Excluding Special Charge	\$ (394,330)	\$ (309,355)	27.5%
EBITDA Margin - Reported	(73%)	(60%)	
EBITDA Margin - Excluding Special Charge	(65%)	(60%)	
Capital Expenditures 1			
Access	\$ 124,235	\$ 109,201	13.8%
Hosting and Value-added services	32,648	54,419	-40.0%
GNI/Transport	309,383	298,991	3.5%
International	14,820	9,475	56.4%
Other	79,615	28,686	177.5%
Total capital expenditures	\$ 560,701	\$ 500,772	12.0%
Depreciation and Amortization			
Access	\$ 37,072	\$ 24,708	50.0%
Hosting and Value-added services	18,595	10,040	85.2%
GNI/Transport	101,878	50,441	102.0%
International	4,406	388	1035.6%
Other	34,759	30,017	15.8%
Total depreciation and amortization	\$ 196,710	\$ 115,594	70.2%

(1) Includes accruals and capital leases, excludes capitalized software

n/m = not meaningful

#### GENUITY INC.

#### SELECTED KEY PERFORMANCE INDICATORS (dollars in thousands)

Unaudited

	2001	AT JUNE 30,		
		2000	Change	% Change
Access				
Dedicated				
# of Installed Connections	4,150	3,800	350	9%
Annualized Average Revenue per Installed Connection	\$ 48.1	\$ 43.4	\$ 4.7	11%
Dial-up (2)				

# of Installed Modems	958,248	721,704	236,544	33%
% of Modems on GNI	40%	18%	2200 bp	n/m
Broadband (2)				
Total Subscribers	452,118	76,651	375,467	490%
AOL as % of Total Revenue (1)	34%	45%	(1100) bp	n/m
Hosting				
Managed Customers	337	248	89	36%
Gross Data Center Square Feet Under Agreement (K)	389	197	192	97%
International				
# of Installed Connections	231	159	72	45%
Gross Data Center Square Feet Under Agreement (K)	15	-	15	n/m
Sales Force				
Total # of Direct Quota-Carrying Personnel	438	370	68	18%

## Notes:

(1) A reduction in this item is considered favorable to GENUITY.

(2) Includes AOL.

n/m = not meaningful

## GENUITY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

		Unaudited
	June 30, 2001	December 31, 2000
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & cash equivalents	\$ 70,917	\$ 868,926
Accounts receivable, net	354,763	369,460
Other current assets	48,673	51,600
Total current assets	474,353	1,289,986
Property, plant and equipment, net	3,401,074	3,009,706
Goodwill and other intangibles, net	519,950	526,449
Other assets	76,085	73,184
<b>TOTAL ASSETS</b>	<b>\$ 4,471,462</b>	<b>\$ 4,899,325</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term obligations	\$ 828,147	\$ 35,514
Accounts payable	118,298	442,874
Other current liabilities	329,977	588,197



Total current liabilities	1,276,422	1,066,585
Long-term liabilities	76,421	66,855
<b>TOTAL LIABILITIES</b>	<b>1,352,843</b>	<b>1,133,440</b>
<b>STOCKHOLDERS' EQUITY</b>	<b>3,118,619</b>	<b>3,765,885</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 4,471,462</b>	<b>\$ 4,899,325</b>

## GENUITY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

Unaudited

	SIX MONTHS ENDED JUNE 30, 2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (645,923)	\$ (434,533)
Adjustments to reconcile net loss to net cash used in operations:		
Non-cash portion of special charge	43,282	-
Depreciation and amortization	196,710	115,594
Changes in current assets and current liabilities	(92,861)	3,152
Other, net	(6,238)	5,301
Net cash used in operating activities	(505,030)	(310,486)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(983,953)	(545,728)
Capitalized software	(46,133)	(12,670)
Net cash used in investing activities	(1,030,086)	(558,398)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	750,000	-
Proceeds from stock offering, net of expenses	-	1,831,547
Repayment of note payable--GTE	-	(136,484)
Contributions from GTE	-	1,150,930
Other	(12,893)	(51,458)
Net cash provided by financing activities	737,107	2,794,535
Net increase (decrease) in cash and cash equivalents	(798,009)	1,925,651
Cash and cash equivalents, beginning of period	868,926	6,044
Cash and cash equivalents, end of period	\$ 70,917	\$1,931,695

---

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# GENUITY™

**James L. Freeze**  
**Chief Marketing and Strategy Officer**

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CIBC World Markets Investor Conference  
June 11, 2001

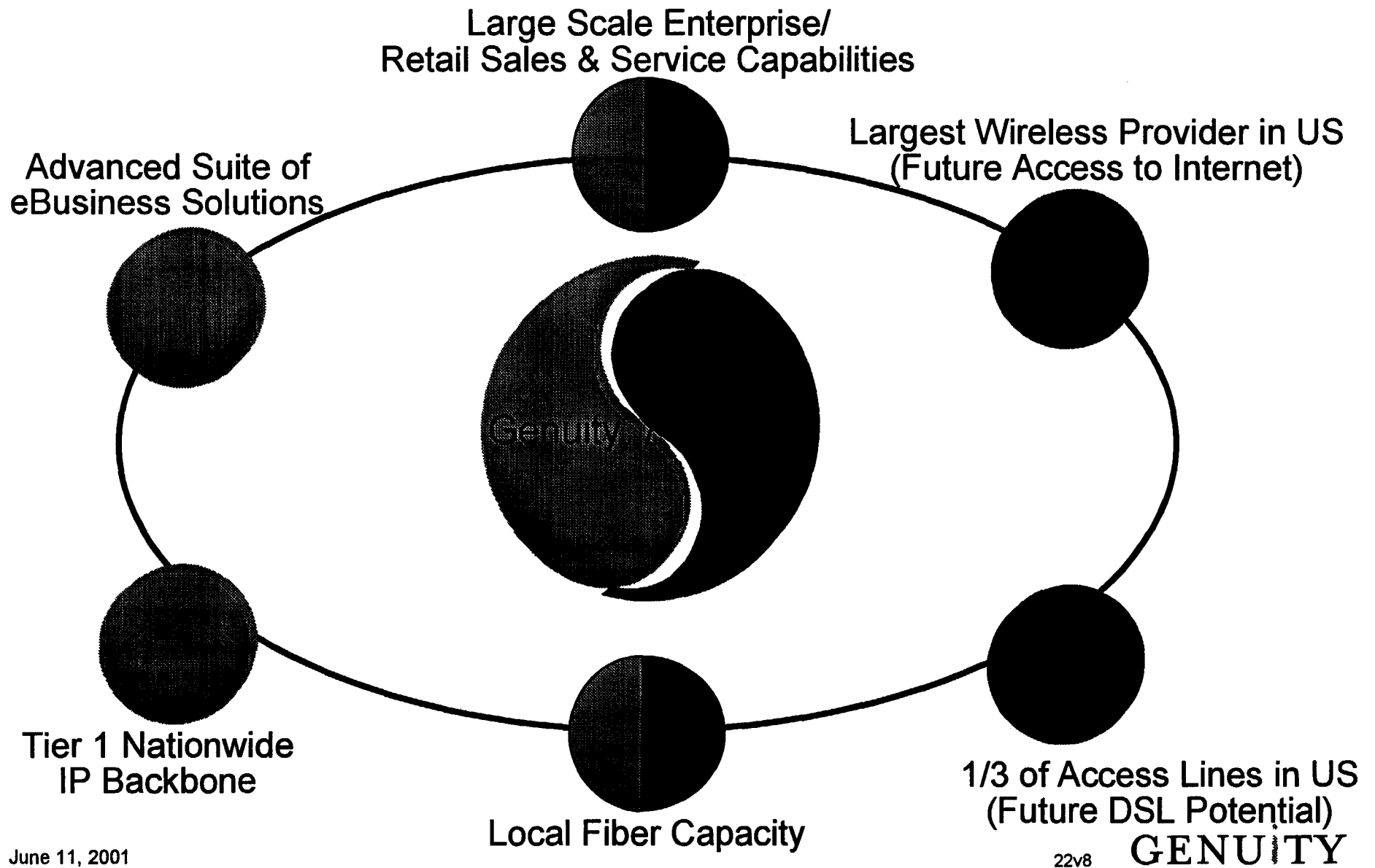
# **Jim's Top Ten List**

---

## ***Top 10 Reasons Why YOU Should Buy GENU Shares – Now!***

- No. 2 We're Backed by Verizon**
- No. 3 We've Got BLACK ROCKET™**
- No. 4 We've Got Strong Competitive Position & Advantage**
- No. 5 We've Got Customers**
- No. 6 We've Got The Infrastructure Built**
- No. 7 Broadband is Growing**
- No. 8 Telecom Dollars Are Migrating to IP**
- No. 9 eCommerce is Just Beginning**
- No. 10 We're Not a Dot.Com**

# **Genuity / Verizon Powerful & Complementary Strategic Relationship**



# **Jim's Top Ten List**

---

## ***Top 10 Reasons Why YOU Should Buy GENU Shares – Now!***

- No. 1    The Stock Price is Cheap!**
- No. 2    We're Backed by Verizon**
- No. 3    We've Got BLACK ROCKET™**
- No. 4    We've Got Strong Competitive Position & Advantage**
- No. 5    We've Got Customers**
- No. 6    We've Got The Infrastructure Built**
- No. 7    Broadband is Growing**
- No. 8    Telecom Dollars Are Migrating to IP**
- No. 9    eCommerce is Just Beginning**
- No. 10   We're Not a Dot.Com**

# **Genuity's Focus in 2001**

- **Continue Targeting eBusiness Network Service Opportunities for Enterprise Customers**
- **Sales Focus**
  - Hosting and Value-Added Services
  - Dedicated and Broadband Access
  - Integrated Solution vs. Stand-Alone Services
- **Selective Opportunities for Wholesale Access**
- **Expand Direct and Channel Partner Sales**

# **2001 Revised Guidance\***

---

## **■ Revenue: \$1.3-\$1.35B**

- Non-AOL Growth in Area of 40%
- AOL Declining to Approximately 30% of Total Revenues
- Access Growth in Area of 15%
- Hosting and Value-Added Services to Grow Strongly, Representing 13-15% of Total Revenues

## **■ Gross Margin**

- 4Q01 Will Be First Full Quarter of Positive Gross Margin



# **2001 Revised Guidance\***

---

- **EBITDA Loss: \$675 to \$700M**
- **EPS: Loss Between \$1.30 and \$1.35**
  - 2Q01 Projected Loss Between \$0.33 and \$0.35
- **CAPEX**
  - 2001: \$1.4B vs. Previous Guidance \$2.2B
  - 2001-04: \$4-5B vs. Previous Guidance \$7-9B

# **Funding**

---

- **Currently, Verizon Is Permitted to Lend up to \$2.75B to Genuity**
  - \$2B of Long-Term Credit Enhancements
  - \$900M Short-Term Bridge Facility
- **Additionally, Genuity Has a Committed \$2B Credit Facility**
- **Genuity's Operating Plan Reaches Positive FCF Within Existing \$4.75B Funding Limits**

# **Genuity**

---

- **Well Positioned With Operational Infrastructure and Category Leadership in Major Service Lines**
- **Focused on Expanding Distribution**
  - Direct Sales Force
  - Verizon
  - ePartners
- **Driving Shareholder Value**
  - Revenue Growth / Mix
  - Growing Margin Expansion
  - Capital Efficiency

# GENUITY<sup>TM</sup>

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**NEWS****Verizon Takes Convergence To The Enterprise**

By [Max Smetannikov](#), Interactive Week  
 August 6, 2001 9:09 AM ET

Verizon Communications' enterprise division is flying the flag of convergence, as it moves to double the size of its professional services group and boost offerings, in an attempt to lure more voice and data business away from long-distance rivals and fellow regional Bells.

By fall, the company's enterprise division is expected to roll out more IP-based services for big businesses, including IP services delivered over its older network. Some of the services, such as managed IP private branch exchanges, would cut into its own circuit-switched network business.

"There is definitely some cannibalization of our own services as a result of convergence, but, if you look at the opportunities and the size of the long-haul opportunity, we can potentially get a lot of the business that we don't have today - utilizing convergent technology," said Ed McGuinness, senior vice president of marketing at Verizon Enterprise Solutions Group.

Short term, the plan is to work with customers to upgrade their enterprise networks on both the voice and data fronts. Long term, Verizon wants enterprise long-haul business at the expense of losing some circuit-switched revenue. The company is also working closely with Genuity on developing a voice-over-IP product by the year's end.

Verizon is working behind the scenes to beef up its professional services group, a band of consultants who will help about 1,500 of Verizon's largest customers integrate and custom-fit new data and voice products into large enterprise networks. This

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group, dispersed over three Verizon divisions, currently stands at about 100 people. The company will create partnerships with other consulting firms, and will charge hourly rates when the staff is increased.

The relationship with Genuity is critical for Verizon's plan to reinvent itself as a global carrier going toe to toe with the likes of Cable & Wireless and WorldCom.

A condition for the merger of GTE and Bell Atlantic, two regional Bells that make up Verizon, was a spin-off of GTE Internetworking, now known as Genuity. The original contractor on the network that served as a foundation of the Internet, Genuity has a long history of providing IP services. Following its divestiture, it relaunched as a provider of high-end managed hosting and enterprise outsourcing services, an offering embodied in a group of products called Black Rocket.

Industry watchers have long credited Genuity with writing the book on where large telcos should go with their IP business services, noting that the company's Black Rocket offerings have been copied by rivals.

Under conditions of the merger, Verizon owns only 10 percent of Genuity now, but can convert that into 80 percent ownership once Verizon is cleared to offer long-distance service to more than 95 percent of lines in former Bell Atlantic territory. Verizon has won approval to offer long-distance in New York and Massachusetts, states that account for 40 percent of all lines in the territory, with applications pending that would boost the total to 55 percent.

Combined, Genuity and Verizon are likely to aggressively court business customers with high-end enterprise outsourcing services.

"As transport becomes more commoditized over time, the fact [that] we have been moving towards more value-added managed e-business solutions aspects of the business is going to stand very well for us," said Joseph Farina, Genuity president and chief operating officer.

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